

WHAT'S DRIVING PRICE DISCOVERY IN THE LIVESTOCK MARKETS

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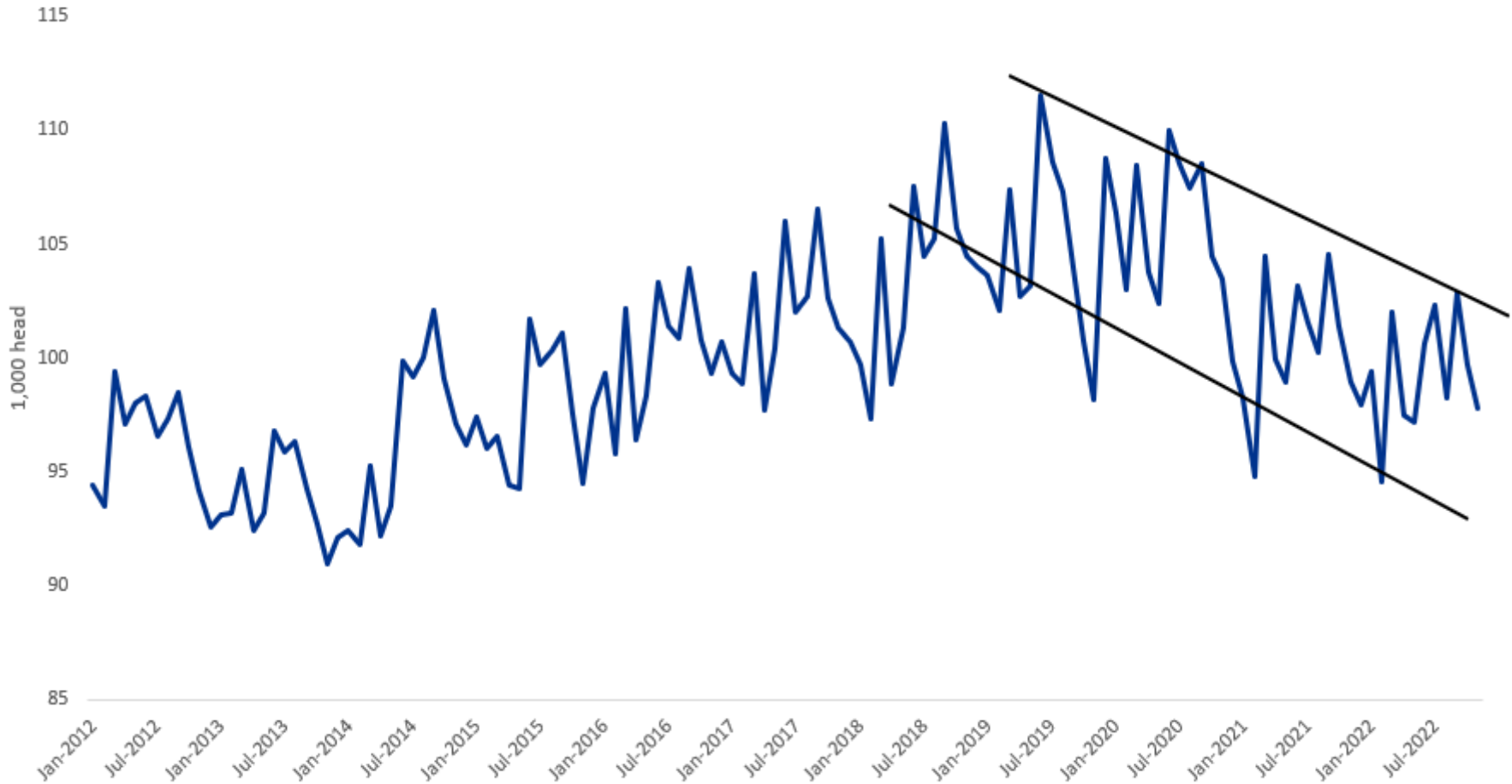
Top 2023 Livestock Outlook Items

1. The intractable drought has led to extreme cattle culling. Breeding herd slaughter (cows+heifers) is the largest on record.
2. When the drought starts to recede feeder cattle prices can soar higher.
3. Aggregate beef demand is strong. Strong US labor market and exports are supporting the cutout.
4. US hog supplies will remain tight. Farrowing data from the USDA's December Hogs & Pigs report showed minimal expansionary tendencies.
5. Record high soybean meal costs are eroding hog profitability and limiting expansion.
6. US pork export sales are encouraging. US pork exports have been strong and as the global hog herd is contracting the demand for US pork should continue to expand. Chinese export sales are encouraging and can grow as the country continues to emerge from COVID lockdowns.
7. The lean hog futures trade has been driven by a large managed money short position. If fundamentals change and supplies tighten, this can cause managed money to short cover and help futures markets rally.

Hog Outlook

Monthly US Hog Farrowings: Trend is *Lower*

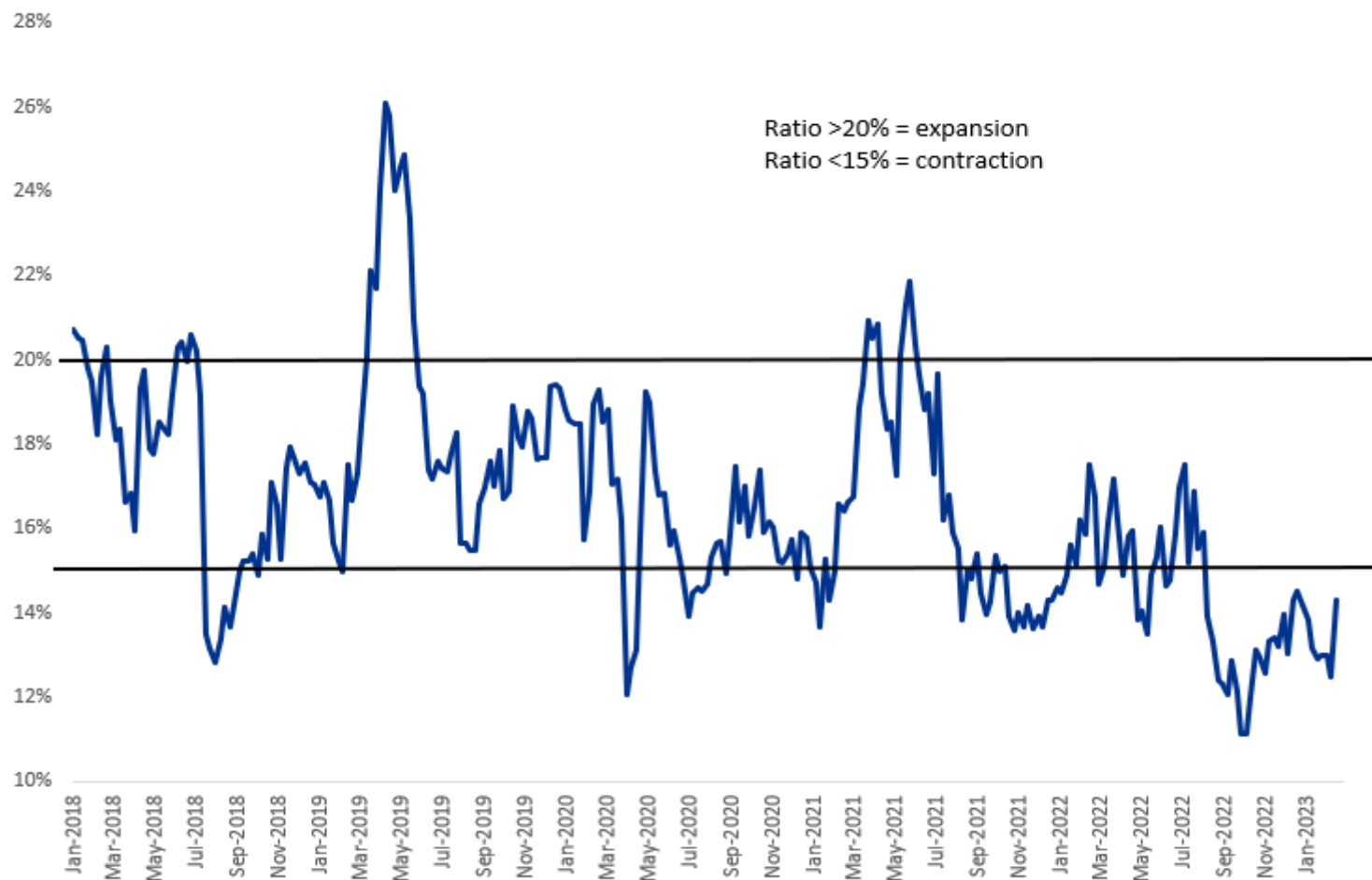
Lower farrowings + PRRS = lower market hog supplies.



Source: USDA, Hilltop Securities

Weekly CME Hog /Corn Ratio: Limited Expansion

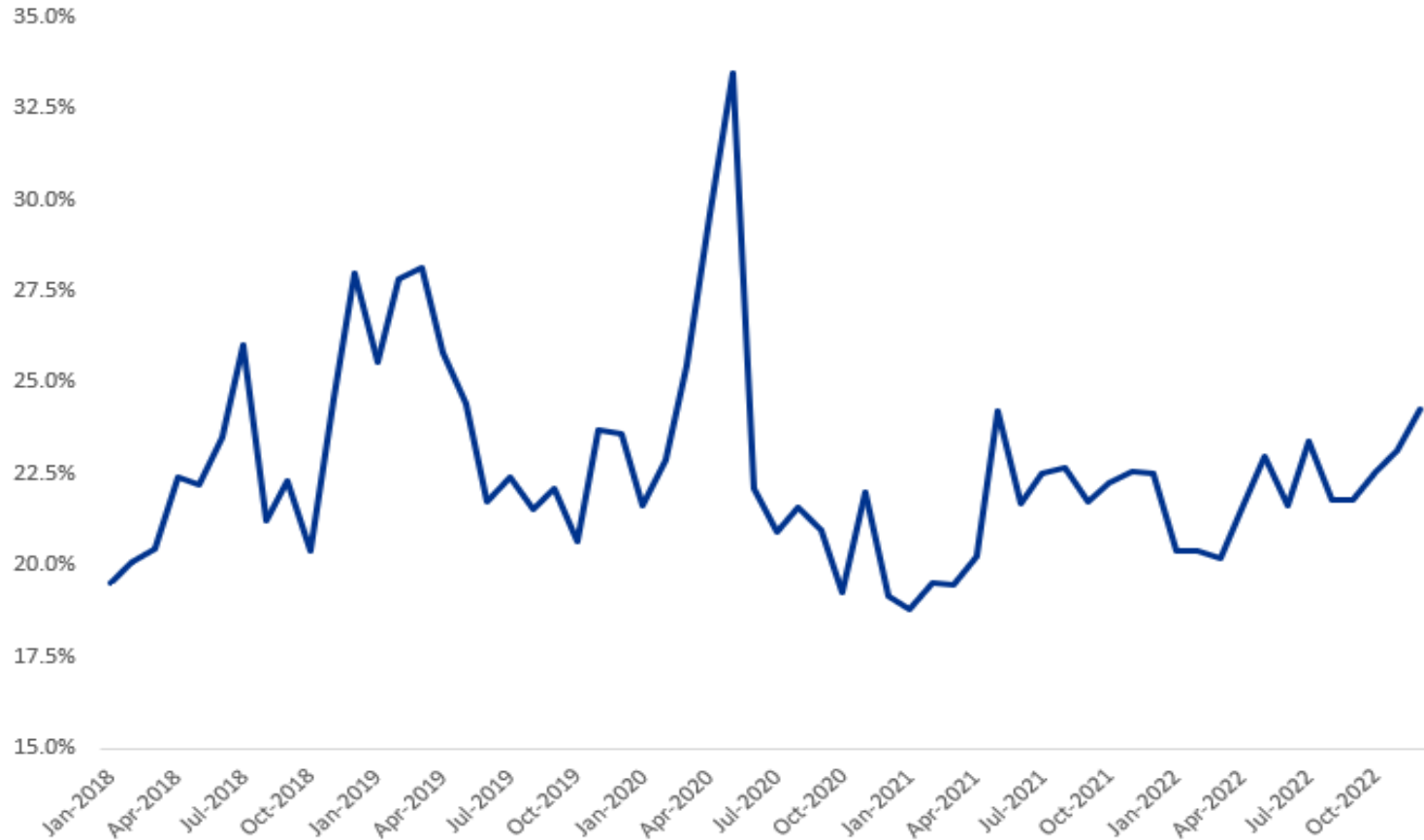
Record high soybean meal and strong corn prices are slowing expansion.



Source: Bloomberg, Hilltop Securities

Monthly Pork Exports As Percent Of Production

Global hog supplies are falling. China's post-COVID reopening can help US exports.



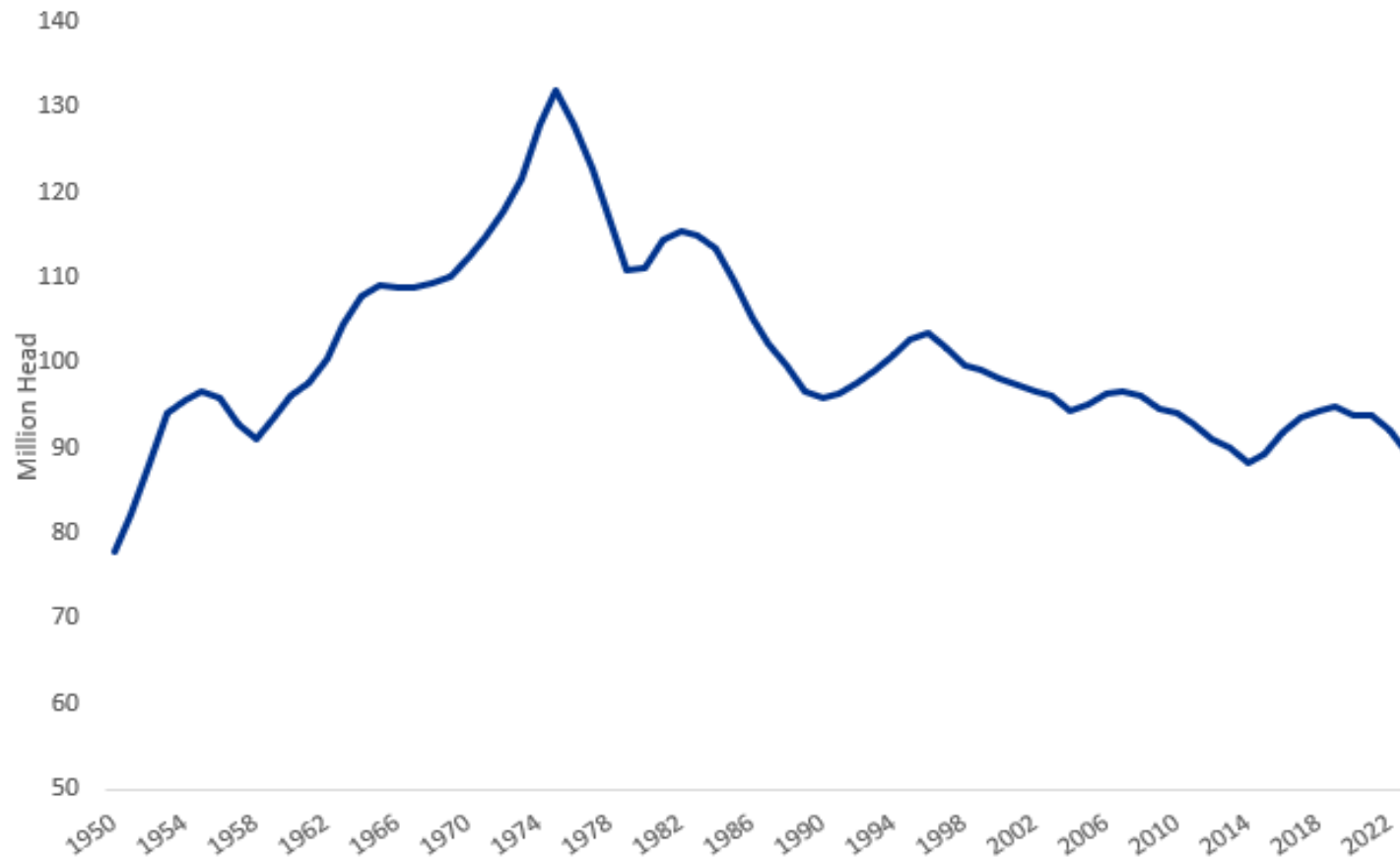
Source: USDA, Hilltop Securities

Cattle Outlook

1. **The US is structurally short cattle supplies.** The single and most important variable that will support fed and feeder cattle prices in 2023 will be the structural supply shortage. As heifer retention hastens and beef cow slaughter slows, feeder cattle and fed cattle supplies will contract leave the market structurally short.
2. **A white-collar recession.** Despite the ambiguous outlook of the US labor market, recent job data shows structural resiliency. Hourly wage earners are in strong demand. This reduces concerns about softening food service beef demand.
3. **A softer US dollar** can help support US beef export sales to critical markets.
4. **Brazil's recent BSE case can help produce tailwinds for US exports.**
5. **Estimated fair value** for April'23 live cattle: \$163-167/cwt. August'23 live cattle: \$157-161/cwt. October'23 live cattle: \$156-161/cwt.

January 1 All Beef Cattle & Calves

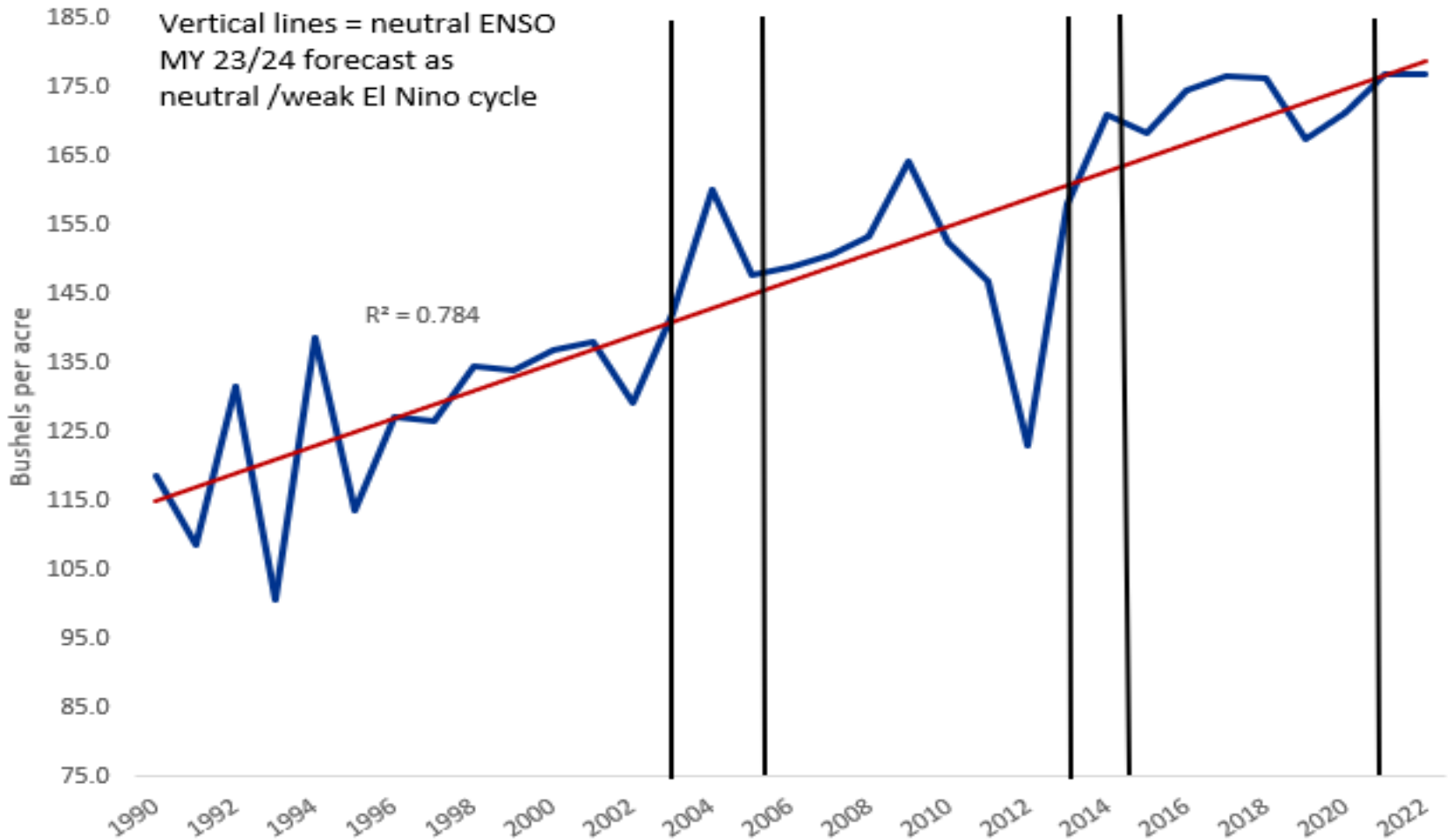
Lack of pasture + high corn prices has forced broad and deep liquidation.



Source: USDA, Hilltop Securities

Historical Neutral ENSO Pattern And US Corn Yields

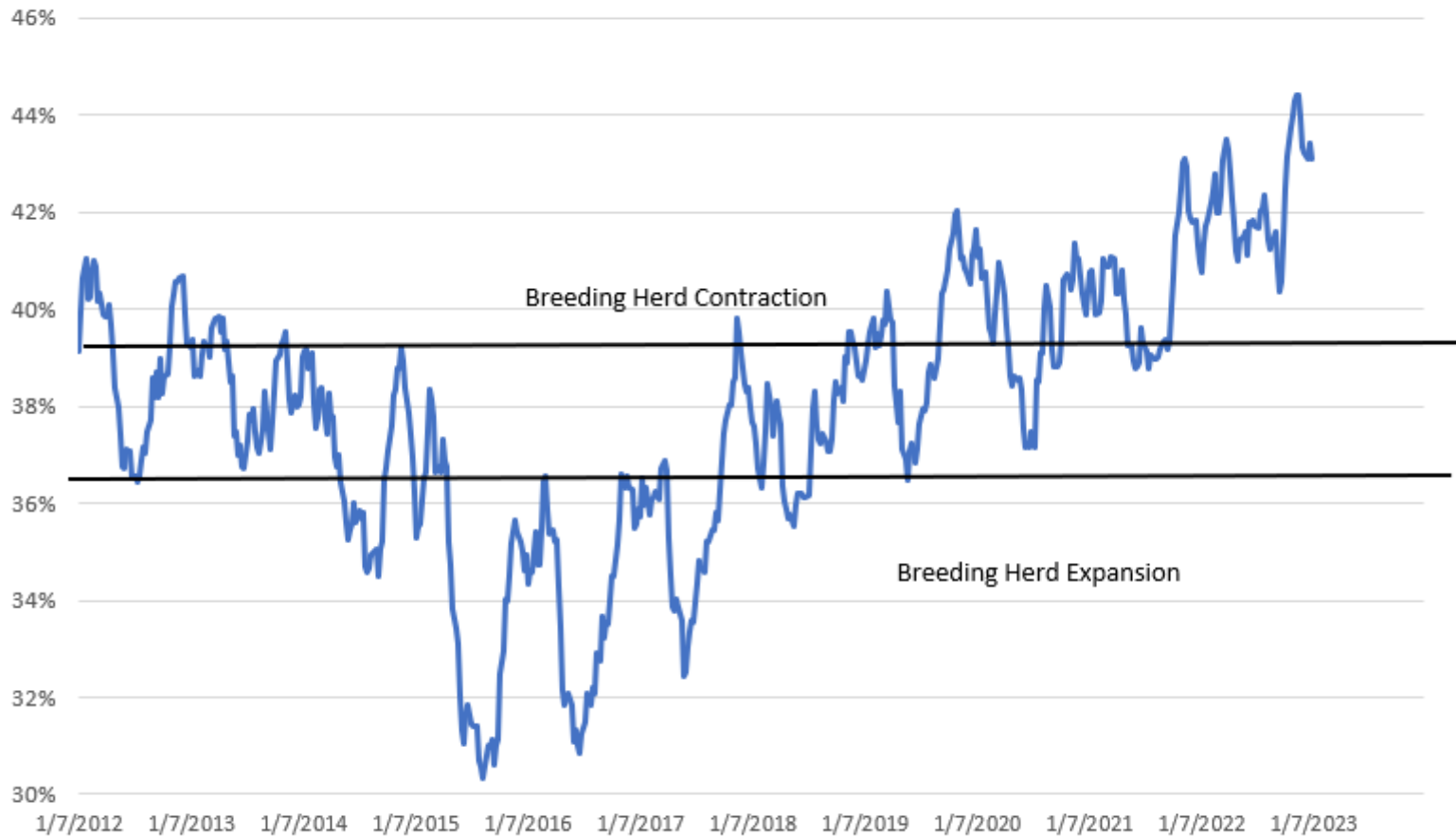
Increased corn supplies will help lower cattle feeding costs.



Source: NOAA, Hilltop Securities

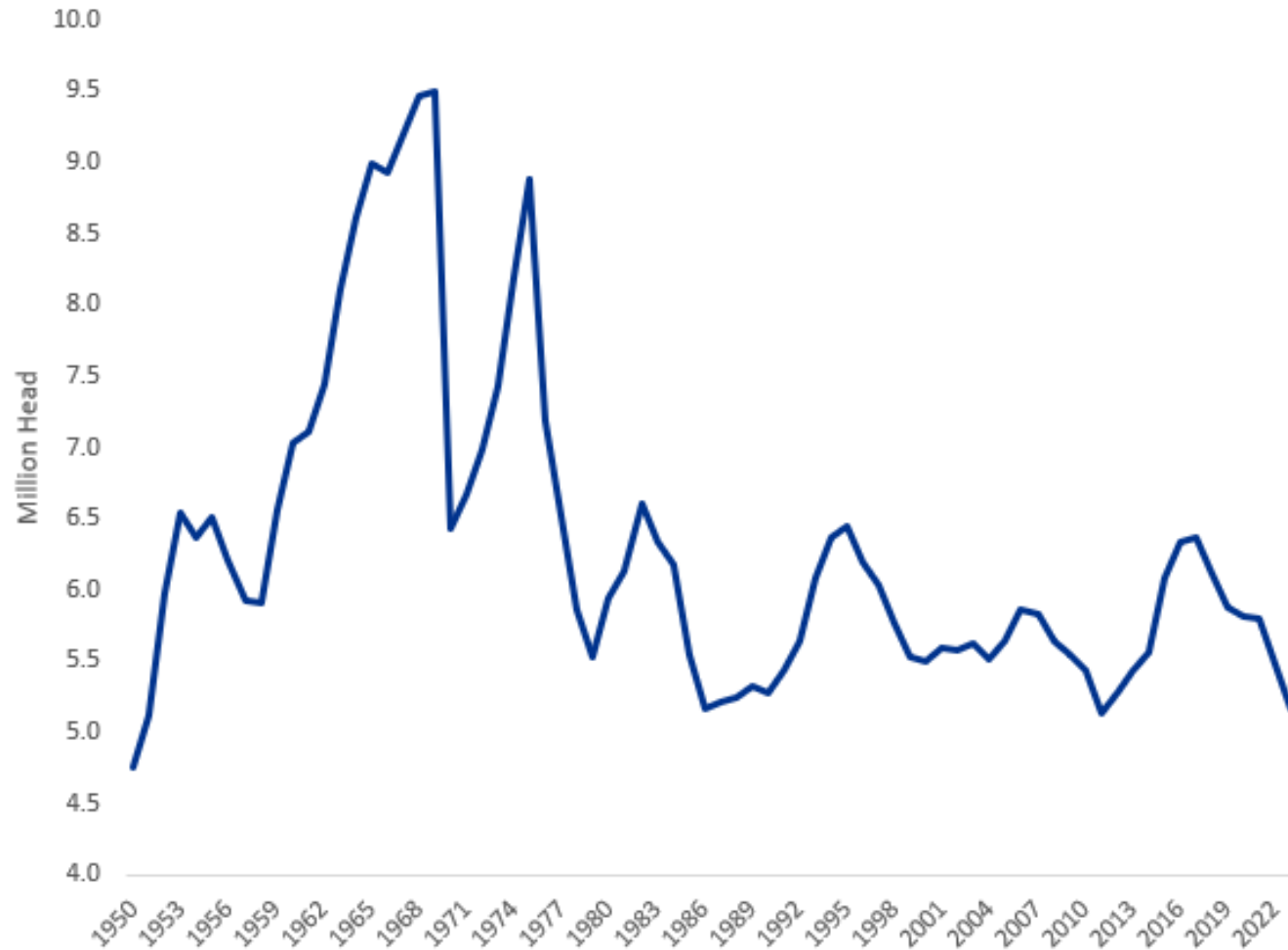
Weekly Beef Cow + Heifer As Percent of Slaughter

Increased pasture and grazing opportunities will help female animal retention.



Source: USDA, Hilltop Securities

January 1 Heifers For Beef Cow Replacement



Source: USDA, Hilltop Securities

Why Choose HTS Commodities? Our Data Driven Approach

How We Can Help

**Familiarization
and overview
of hedging
objectives**

Communicate goals, objectives and vision

**Collaborative
assessment**

Identify the greatest risk exposure to price volatility

**Qualitative &
quantitative
assessment of
key exposure
points**

360-degree assessment of active markets

**Applied
machine
learning to
help analyze
and model
prices**

Mathematical to create price projections

**Data
Visualization**

Easy-to-understand graphics to complement the analytical process

**Strategy
delivery and
execution**

HTSCommodities brings together commodities specialists with decades-long experience, superior industry knowledge and strong local roots across 6 offices in Texas (Amarillo, Plano, Dallas), Minnesota (St. Paul), Tennessee (Memphis) and New York (NYC). The team is comprised of seasoned commodities brokers, traders and investment bankers and has a wealth of expertise in risk management, trading execution and advisory. The team specializes in agricultural and energy commodities along with rates and foreign exchange.

HTS Commodities trades futures, options & OTC contracts across multiple sectors:



Agriculture

Corn, soft red and hard red wheats, rough rice, feeder and live cattle, lean hogs, soybeans, soybean oil, and soybean meal



Energy

Oil and oil products, natural gas and electricity



Metals

Gold, silver, platinum, palladium, copper, and aluminum



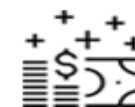
Softs

Sugar, coffee, sugar, orange juice, cocoa, cotton, and lumber



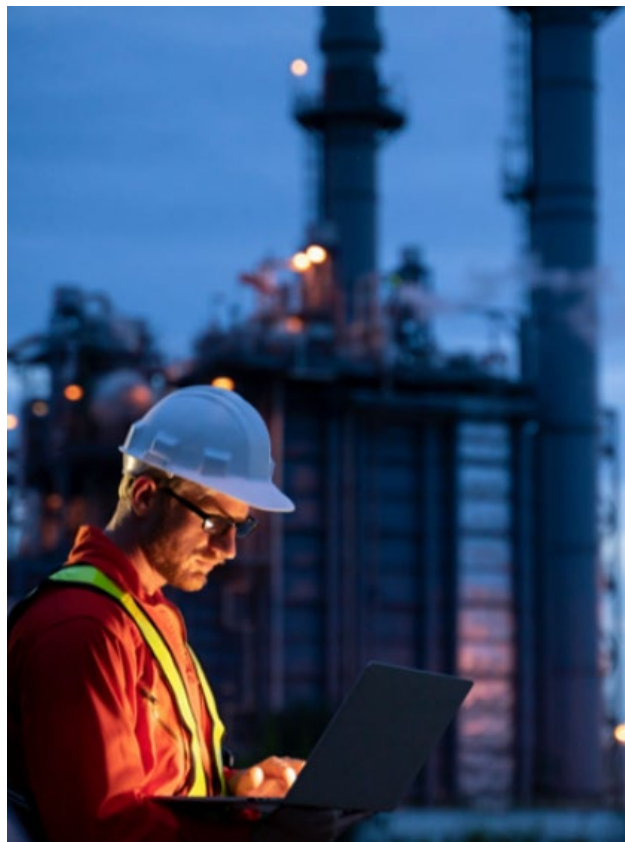
Interest Rates

Treasury bonds, treasury notes, and Eurodollar, fed funds, and SOFR



Equities

S&P 500, Dow Jones, Russell 2000 and Nasdaq-100



HTSCommodities – Execution & Advisory



Our team brings hands-on experience to developing hedging and trading strategies for investors, consumers and producers of all sizes across all commodities. We provide a full suite of services to help all clients minimize risk, maximize results, and gain a competitive advantage in their marketing. With equal understanding and access to listed and OTC markets, the team is uniquely positioned to provide clients with complete and unbiased advice.



Full-Service Commodities Consulting

We follow a customized approach in delivering consulting services to producers and consumers seeking to improve their marketing strategies, minimize their price risk exposure, and position themselves to hedge as well as capture market opportunities.

Our consulting model provides full-service marketing management, with our team building and managing hedging strategies and actively working with producers and consumers to execute from start to finish.

Hedging Advisory

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